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C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 001568

SIPDIS

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TAGS: PGOV PHUM PREL GG

SUBJECT: GEORGIA: COURT RULES THAT BURJANADZE MUST PAY PROPERTY TAX BILL

REF: 08 TBILISI 963

Classified By: AMBASSADOR JOHN F. TEFFT. REASONS: 1.4 (B) AND (D).

¶1. (C) Summary: Nino Burjanadze (Democratic Movement - United Georgia) has been ordered by a Tbilisi court to pay 1.2 million lari (approximately USD 715,000) for her tax bill for her dacha in Tkneti, just outside of Tbilisi. The court upheld the assessment of the Ministry of Finance which Burjanadze disputes as unfair and an example of political repression. Burjanadze received the property for a symbolic 1 lari (USD 66 cents) in May 2008 from the GoG and has not yet paid any taxes for the property. Burjanadze plans to appeal the ruling. End Summary.

¶2. (C) Comment: Burjanadze previously shrugged off suggestions by the Ambassador and others not to accept the property because of the appearance of impropriety as well as potential future legal entanglements. Burjanadze is claiming political repression but the case, while it certainly has political implications, needs to be viewed also against the backdrop of the Ministry of Finance's general tightening of the tax screws in its very public and obvious effort to boost legitimate revenue collection. In any event, Burjanadze who feels somehow entitled to a property she received for free, at taxpayer expense, could have easily avoided this problem by showing some earlier scruples. End Comment.

A Bit of History

¶3. (C) Burjanadze accepted the Tskneti property in May 2008 as a result of President Saakashvili's decree authorizing the sale of the 32,000 square meter plot to Burjanadze for 1 GEL (less than one dollar). The decree explained the step was made due to Burjanadze's efforts "in the development of parliamentarianism and democracy in Georgia." At the time, the Ambassador counseled Burjanadze about the problems she could face both politically and otherwise by accepting the gift. Current Minister for Corrections and Legal Assistance, then International Republican Institute chief of party, Dmitry Shashkin also warned Burjanadze about the implications of accepting the property (ref A). Burjanadze ignored the advice and accepted the property. Burjanadze has paid no taxes to date on the property.

The Current Dispute

¶4. (C) According to the Ministry of Finance, Burjanadze needs to pay property tax on the property according to its value something Burjanadze does not appear to dispute. The crux of Burjanadze's argument is based on the valuation of her property. Burjanadze claims that the property is only worth GEL 2.8 million (USD 1.67 million) while the Ministry of Finance assesses the property at GEL 12.1 million (USD 7.2 million). As such, Burjanadze argues that she is only obligated to pay GEL 300,000 (USD 180,000) while the GoG assesses her tax liability at GEL 1.25 million (USD 745,000). (Embassy Note: Press reports have been estimating the total

of Burjanadze's tax liability within a range from GEL 1.25 million to GEL 12.5 million. According to Burjanadze's office, the correct figure is GEL 1.25 million). Burjanadze's attorneys are waiting for the written decision, and have indicated they are then likely to appeal.

Likely Legitimate Revenue Collection Say Practitioners

15. (C) According to resident AmCit Ted Jonas, Managing Partner at DLA Piper in Tbilisi, a number of his clients have told him that the Ministry of Finance has recently been more aggressive in collecting revenues in all areas than in past years to make up for budgetary shortfalls. Jonas said saw nothing improper in the GoG is using legal tools to boost legitimate tax revenues. Jonas described the Georgian property tax code and the legal framework for collecting taxes as not terribly complex and something that accountants and lawyers deal with on a regular basis. Clifford Isaak, Managing Partner at Price Waterhouse Coopers said the valuation process is straightforward and based upon a mathematical formula which depends on the square footage of the property. (Embassy Note: Isaak said Burjanadze's people approached him to work on the case but he declined. End Note.) Isaak said the only real issue he could see as legitimately disputed is whether the property is zoned rural or urban which would dramatically effect the tax bill. Isaak, who said he was familiar with the property, told Poloff that his initial assessment is that the property in question was properly zoned urban. Isaak said that in his opinion, Georgia has the most straightforward system for land valuation in the CIS. Isaak noted that Burjanadze's dispute, while it certainly has political overtones, is only unique in

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the fact that most people (like him) grumble and pay their bill knowing that the system is generally transparent and fair even if taxes are steep.

TEFFT